

Lessors of tangible personal property under true leases in Illinois are deemed end users of the property to be leased. The only exception is the rentor of automobiles under lease terms of one year or less. See 86 Ill. Adm. Code 130.220. (This is a GIL).

February 19, 1999

Dear Ms. Xxxxx:

This letter is in response to your letter dated January 6, 1999. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

COMPANY is requesting a written response regarding the proper treatment of the following transactions. Please be sure to address both steps tax treatment in the transactions and the applicable rules/regulations that apply.

1) COMPANY does a true lease of furniture with Company A, who in turn does a *short-term rental* with Company B. How is each step treated for sales/use tax? What if the lease was of a tractor trailer; an aircraft? Does it make a difference if it is leased within IL or outside IL?

2) COMPANY does a true lease of furniture with Company A, who in turn does a *long-term rental* with Company B. How is each step treated for sales/use tax? What if the lease was of a tractor trailer; an aircraft? Does it make a difference if it is leased within IL or outside IL?

3) COMPANY does a true lease of furniture with Company A, who in turn does a *short-term lease* with Company B. How is each step treated for sales/use tax? What if the lease was of a tractor trailer; an aircraft? Does it make a difference if it is leased within IL or outside IL?

4) COMPANY does a true lease of furniture with Company A, who in turn does a *long-term lease* with Company B. How is each step treated for sales/use tax? What if the lease was of a tractor trailer; an aircraft? Does it make a difference if it is leased within IL or outside IL?

Please call me at #### if you have any questions. Thank you for your response.

Please note that the State of Illinois taxes leases differently for Retailers' Occupation Tax and Use Tax purposes than the majority of other states. For Illinois sales tax purposes, there are two types of leasing situations: conditional sales and true leases.

A conditional sale is usually characterized by a nominal or one dollar purchase option at the close of the lease term. Stated otherwise, if lessors are guaranteed at the time of the lease that the leased property will be sold, this transaction is considered to be a conditional sale at the outset of the transaction, thus making all receipts subject to Retailers' Occupation Tax.

A true lease generally has no buy out provision at the close of the lease. If a buy out provision does exist, it must be a fair market value buy out option in order to maintain the character of the true lease. Lessors of tangible personal property under true leases in Illinois are deemed end users of the property to be leased. See the enclosed copy of 86 Ill. Adm. Code 130.220. As end users of tangible personal property located in Illinois, lessors owe Use Tax on their cost price of such property. The State of Illinois imposes no tax on rental receipts. Rental charges for a sublease are also not subject to tax in Illinois. Consequently, lessees incur no tax liability.

The above guidelines are applicable to all true leases of tangible personal property in Illinois except for automobiles leased under terms of one year or less, which are subject to the Automobile Renting Occupation and Use Tax found at 35 ILCS 155/1 et seq.

As stated above, in the case of a true lease, the lessors of the property being used in Illinois would be the parties with Use Tax obligations. The lessors would either pay their suppliers, if their suppliers were registered to collect Use Tax, or would self-assess and remit the tax to the Department. If the lessors already paid taxes in another state with respect to the acquisition of the tangible personal property, they would be exempt from Use Tax to the extent of the amount of such tax properly due and paid in such other state. See 86 Ill. Adm. Code 150.310(a)(3), enclosed.

Under Illinois law, lessors may not "pass through" their tax obligation on to the lessees as taxes. However, lessors and lessees may make private contractual arrangements for a reimbursement of the tax to be paid by the lessees. If lessors and lessees have made private agreements where lessees agree to reimburse lessors for the amount of the tax paid, then lessees are obligated to fulfill the terms of the private contractual agreements.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Melanie A. Jarvis  
Associate Counsel

MAJ:msk  
Enc.